

ECONOMIC ANALYSIS OF MARKETING AND PROCESSING OF COFFEE IN KODAGU DISTRICT OF KARNATAKA

THANUJA P & N.K.SINGH

Department of Agricultural Economics, SKRAU, Bikaner, India

ABSTRACT

Karnataka state stands first among the coffee producing states by contributing 71 percent of total India's coffee production. The present investigation was carried out to study the major marketing channel and margin under coffee marketing, constraints involved in the marketing of the coffee. The study was conducted in Kodagu district of Karnataka. All three taluqs of Kodagu viz Madikeri, Virajpet, and Somavarpet and one village from each taluk was selected. A sample of 60 farmers based on probability proportion to number of farmers available in each groups and six middlemen and six processing unit(curing unit) were selected to study the coffee marketing cost. There were two marketing channels. Channel-I (producer, commission agent, processing unit, consumer) and channel-II (producer, commission agent, consumer). The channel-II was found to be the best as the producer share in consumer rupee was more (74% per tonne) than in channel-I (71.27%). Net margin earned by middlemen was 7314.5 Rs /tonne in channel-I and net margin earned by processing unit was 35703.5 Rs/tonne in both channels under marketing. The major constraints faced by farmers in marketing of coffee in the study area are, the problems like inappropriate prices, lack of labour availability, transportation problems faced by producers, processor and middlemen.

KEYWORDS: Coffee, Kodagu, Marketing Channel, Curing Unit & Margin

Received: Jun 18, 2017; **Accepted:** Jul 12, 2017; **Published:** Jul 17, 2017; **Paper Id.:** IJASRAUG201727

INTRODUCTION

The **coffee plant** is a woody perennial evergreen dicotyledonous that belongs to the Rubiaceae family. Two main species of coffee are cultivated today. *Coffea arabica*, known as Arabica coffee, accounts for 75-80 percent of the world's production. *Coffea canephora*, known as Robusta coffee, accounts for about 20 percent and differs from the Arabica coffees in terms of taste. History of coffee usage goes back to the thirteen century. The Arabs were the first to cultivate and also to trade coffee. Coffee, nicknamed as "Islamic milk" and "sage's milk" has conquered the third most popular drink after water and wine. Over 125 coffee consuming countries, about 50 per cent of them produce coffee. With 33.16% of world's total coffee production Brazil stands first and with 4.5% of total coffee production India stands seventh among the toppest coffee producing countries.(International coffee organization). With the tune of 4000 crore Rs of foreign exchange Indian coffee has created itself a niche in the international market. In India, Karnataka, Tamilnadu and Kerala are the three states cultivating the coffee predominantly. Karnataka accounting for 71.03 percent of India's total coffee production is owned the pride place. In Karnataka, coffee cultivation is confined to three districts, namely Kodagu, Chikmagalur and Hassan. These districts respectively account for 45.66, 38.99 and 15.45 per cent of the area, and 54.06, 34.10 and 11.84 per cent of the production of coffee in the state. With that, Kodagu stands first in coffee production. It referred to as the 'Coffee Cup of India'. Keeping in view the importance of coffee in the state economy, the present study made an attempt to analyse the Marketing of coffee in Kodagu district of Karnataka with the following objectives.

- To estimate the costs and margins under major channels of coffee marketing.
- To identify constraints in marketing of coffee and to Suggest Corrective measures to improve the marketing of coffee.

MATERIALS AND METHODS

Kodagu district having first place both in area and production (201) of coffee in karnataka state was selected, purposively. Then, three taluqs namely Madikeri, Virajpet, and Somvarpet of the district were purposively selected. From each taluk one coffee growing village was selected randomly for the further sampling. A list of coffee growers from each village was prepared and 20 farmers from each village were selected randomly on the basis of probability to proportion of the coffee growers available in each group. Thus, among 60 total sampled farmers, there were 45 small farmers (<10ha) and 15 large (>10ha) farmers. (Criteria fixed by Coffee Board Karnataka). With the help of these 60 sampled farmers, a list of all middlemen was prepared and 2 from each village were selected randomly, and hence there were 6 middlemen selected from the district for the study. With the help of the sampled middlemen a list of all curing units in the district was prepared and 2 curing units from each taluk was selected randomly for further study. As per the requirement of objectives, primary data for the agriculture year 2014-15 were collected through personal interview method with the structured data, schedule specially designed for this purpose. The cost incurred by the coffee producer in marketing of coffee, cost incurred by the intermediaries in marketing of coffee, and price spread in different channel was worked out by using the following formula (S.S.Acharya and N.L.Agarwal)

Price spread= Price paid by consumers- price received by producers.

RESULTS AND DISCUSSIONS

The results have been discussed under the following sub heads: (i) Marketing cost incurred by the producers. (ii) Marketing cost incurred by middlemen. (iii) Price spread in marketing of coffee in different channel.

It was found that the farmers adopted two channels for the marketing of coffee in Kodagu district.

Channel-I

Producers → Commission agents → curing unit → consumer

Channel-II

Producers → curing unit → consumer

Marketing Cost Incurred by the Producers

The different marketing cost incurred by the producer is given in the table 1.

Channel-I

Out of the total marketing costs incurred by the coffee growers, the Commission charges constituted around 34.48 per cent (Rs750/ton). Some farmers invariably sold all their produce to the local commission agents, the next item in the marketing cost was transportation cost which constituted about 22.98 per cent (Rs 500/ton). This was mainly due to the fact that the farmhouses are located at the farthest place from main markets. In addition, roads are poorly maintained and hence transportation cost also has a healthy share in marketing cost.

The labour cost in marketing accounted for 14.94 percent (Rs 325/ton). Wet processing of coffee is labour intensive and farmers in variably go for wet processing, as value addition from wet processing is relatively higher than dry processing and curing percentage is also higher.

Packing materials accounted about 13.79 per cent. The material used for packing of coffee was gunny sack, as cost of gunny sack is expensive; it formed a modest proportion of marketing cost. Weighing charges accounted for 9.19 per cent, the weighing was done two times, before sending the load and after reaching the destination, hence weighing charges are also high. The other marketing costs incurred are, loading and unloading charges that formed minor component of total marketing cost.

Channel-II

In this channel, the marketing cost incurred by the producer is higher than the other channel, since the producer sold his produce directly to the curing agency, the cost incurred for transportation is higher 47.78 per cent (Rs1350/ton), as the curing agency would be located in taluk place. The labour cost is also high in this channel with 17.68 per cent (Rs500/ton). Because of these two materials, the marketing cost incurred by the producer in this channel was found higher.

Marketing Cost Incurred by the Intermediaries

Intermediaries, operating in coffee marketing were commission agents and curers. In the present study commission agent is one, who act as an agent between producers and curers. It is observed from the Table 2 that, the marketing cost incurred by the commission agents was Rs 1685.44 per tonne of coffee. The major cost incurred for marketing of coffee was on commission charges (32.33 %), and it is followed by transportation (32.6 %). coffee was not sold immediately after procurement to the curers by the commission agents; instead, they stored the produce in godowns, anticipating for the better price.

The foregoing discussions indicated that commission charges and transportation are the major items of marketing cost, in case of commission agents. The reason for high commission charge involved in marketing cost of coffee in case of commission agents is, the tight competition

In case marketing cost of coffee borne by curing agency, the processing cost (95.1 %) was the major cost incurred for marketing of coffee in case of curing agency, since processing has to be done before the product reaches the consumer. The other items of marketing cost include transportation (1.55%), the curing agency bears some cost of transportation to get the produce from producers through channel II as well as from commission agents, through channel I, and they store the produce after processing, as it cannot be marketed suddenly. Thus, the total marketing cost incurred by the curers was Rs 39296.5/ton.

The foregoing discussions indicated that commission charges and transportation are the major items of marketing cost in the case of commission agent, while processing and transportation cost in the case of curing agency. This shows that, creation of good infrastructure for providing good transportation facility may minimize the marketing margins in the coffee marketing at the study area.

Price Spread in Marketing of Coffee in Different Channels

The price spread in coffee marketing is given in Table 3. The price spread in channel-I was worked out to be 84000 per tonne. In channel-I, the farmers could realize 72 per cent of the consumers price, here the curer sale price was

considered as consumer price. The rest 28 per cent was comprised of marketing cost and profit margin of the intermediaries. The commission agents gained a moderate profit margin of Rs 7314.56 per tonne. The share of total marketing cost in consumer rupee was 0.56 per cent.

In channel-II, the price spread was estimated to be 75,000 per tonne. In which, the farmers could realize 74.01 per cent of the consumer price, with a net price of Rs 222,160 per tonne. The rest per cent was comprised of marketing cost and profit margin of the curers. The total profit margin of the curing units on an average was found to be 35,703.5 (11.9%) Rs per tonne.

Out of two channels considered for study, the price spread was significantly higher in channel-I (Rs 84000/tonne), compared to that in channel-II (Rs 75000/tonne) by 89.2 Percent. This was due to the absence of commission agents in channel-II.

The producers' share in the consumer rupee was 71.27 per cent in channel-I and the same was 74.05 per cent in channel-II. Channel II is the efficient channel as the price spread was relatively low and the producer share in consumer rupee was found more.

Constraints Involved in Marketing and Processing of Coffee

It can be revealed from the table 4 that the major constraint faced by the producer was inappropriate price to their produce (91.66%) and the labour shortage in marketing (83.33%). Transportation problems (83.33%) and high cost for cleaning coffee (83.33) were the major constraints faced by middlemen. All sampled curing units faced the problem of high wage rate (100%).

CONCLUSIONS

There were two main marketing channels for coffee. Channel-I (producer- commission agents- curing unit- consumer) and channel-II (producer- commission agents- consumer). The marketing cost incurred by producer in channel I was 2190 Rs/tonne, which was quite low than the cost incurred by him in channel II (2840 rs/tonne). This was due to the high transportation cost, which was completely borne by him. Later, the marketing cost incurred by intermediaries was 1685.44 Rs/t by commission agents and Rs 39296.5 per tonne by curing agents. The cost incurred by curing agents was very high due to the higher processing cost (95.1%).

As the price spread involved in the channel II (25%) was comparatively lower than the channel I (28%), the producer share in consumer rupee was higher in case of channel II (2,22,160 Rs/t). This proved that channel II was the best, when compared to channel I.

During marketing of coffee, the major constraints reported were inappropriate price to their produce (91.66%) and the labour shortage in marketing (83.33%), transportation problems (83.33%), high cost for cleaning coffee (83.33) and high wage rate (100%).

REFERENCES

1. Acharya, S.S., Agarwal, N.L., (2011), "Agricultural marketing in India", New delhi, NY: Oxford & Ibh publishing CO.PVT,LTD.
2. Bhandari, A.(1990). "Coffee: Hard choice a head". *The Hindu Survey of Indian Agriculture*, 3:68-69.
3. D'souza, G.I. (1971). "Crop losses on coffee estates in South India". *Indian Coffee*, 35(12): 505-508.

4. Idrisu,M., Babalola,F.D., Mokwunye, I.U., Anagebogu, C.F. (2012). "Adaptive measure for the factor affecting marketing of coffee in Kogi state, Nigeria". *Agrosearch*, **12**(1):37-49.
5. Jayarama, (2010). "Coffee production and productivity in India- what are the constraints and our priorities". *Indian coffee*, **74**(7):4-8.
6. Joy, C. V., (2004). "Small coffee growers of Sulthan Bathery, Wayanad". *Discussion Paper, Kerala Research Programme on Local Level Development*, 30-33.
7. Kantharaju, (1989). "A study on adoption of improved practices of coffee and cardamom by small farmers in Hassan district of Karnataka". M.Sc.(Agri.) Thesis, Univ. Agric.Sci., Bangalore
8. Musebe, R., Agwanda, C., Mekonen, M. (2007). "Primary coffee processing in Ethiopia: patterns, constraints and Determinants". 8th African Crop Science Society Conference, El-Minia, Egypt, 1417-1421
9. Musebe, R., Agwanda, C., Mekonen, M., Negussie,E., Mekonen,M. (2009). "Costs and efficacy of operating coffee hand pulpers in Ethiopia: a cost benefit analysis". 9th African Crop Science, Conference Proceedings, 697-703
10. Octaviani, J. C., and Biagi, J. D. (2004). "Evaluation of the quality and costs of drying dehusked cherry coffee with mucilage removed, in a rotary horizontal drier, using eucalyptus firewood and liquid petroleum gas. [Portuguese]". *Ecosystema*. **29**(1/2):27-32.
11. Perosa, J.M.Y., Abreu,L.H., (2009), "Economic aspects and opportunities in the market of nquality coffee". *Pesquisa Agropecuaria Tropical*, **39**(2):144-150.
12. Radhakrishnan, S., (2003). " The coffee crisis". *Indian Coffee*, **57**(6): 6-7.
13. Ramaiah, (1971). "Small growers problems and possible remedies". *Indian Coffee*, **35**(2): 54-57.
14. Ramegouda, B.L., (1991). "Crisis management by farmers – An analysis". Ph.D. Thesis, Univ.Agric. Sci., Bangalore.
15. Reddy, D. R. B. (2002). "A comparative study on break even yields of Robusta coffee in India". *Proceedings of the 15th Plantation Crops Symposium Placrosym XV*, 765-769.
16. Reinato, C. H. R. Borem, F. M. Vilela, E. R. Carvalho, F. M. Meireles, E. (2002). "Energy consumption and drying costs of green cherry coffee on agricultural farms in Southern Minas Gerais[Portuguese]". *Revista Brasileira de Engenharia Agricola e Ambiental* **6**(1):112-116.
17. Sanusi, R. A., Oduwale, O. O., Lawal, J. O. (2004). "Impact of coffee marketing problems on coffee production in Nigeria".
18. Shibru,A., and Belay,K. (1999). "coffee marketing system in Ethiopia: the case of Sidama zone". *Agricultura Tropica et Subtropica*, **32**:21-26.
19. Shiva kumar, C., (1990). "Over supply and sluggish demand no easy option of marketing abroad". *Agriculture and Industry*, 1990-91, pp.313-317.
20. Uma Devi, K., Pandurangarao, A. and Raju, V.T.,(2004). "Economics of coffee cultivation and its marketing in Visakhapatnam district of Andhra Pradesh". *Agril. Mkting*, **47**(1):30-35.
21. Worako, T. K., Schalkwyk, H. D. van., Alemu, Z. G., Ayele, G. (2008). "Producer price and price transmission in a deregulated Ethiopian coffee market". *Agrekon*, **47**(4):492-508.

